

Buying a



Franchised Business

The Federal Trade Commission has two categories in its definition of franchise. A package franchise is licensed by the franchisor to do business under a business format that it has established. Fast food is an example in this category. A product franchise is licensed to distribute goods bearing the franchisor's trademark or tradename. Examples of this type are gas stations and car dealerships.

Advantages:

- name recognition already established
- proven plan for running the business
- help with problems from the franchiser
- advertising and marketing already created

Disadvantages:

- innovation often discouraged
- franchise fees and royalties
- co-op advertising fees
- training fees even if training is not needed
- interest on financing
- often must purchase supplies from franchiser
- does not guarantee success

Franchising can be extremely complex. The contracts are usually lengthy and involved. Having a lawyer who is familiar with this area of specialization explain and give advice is strongly suggested.

Important web addresses:

www.purdue.edu/connectindiana

<http://uscode.house.gov/use.htm> (actual tax code)